

CITY OF SCRANTON
OSAGE COUNTY, KANSAS
INDEPENDENT AUDITORS' REPORT AND
REGULATORY BASIS FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

ALDRICH AND COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS
COUNCIL GROVE, KANSAS 66846

City of Scranton
Osage County, Kansas

REGULATORY BASIS FINANCIAL STATEMENTS
Year Ended December 31, 2012

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditors' Report	1-2
Summary Statement of Cash Receipts, Expenditures, and Unencumbered Cash	3
Notes to the Financial Statements	4-12
Regulatory-Required Supplementary Information:	
Schedule 1 - Summary of Expenditures - Actual and Budget	13
Schedule 2 – Schedule of Cash Receipts and Expenditures	
General Fund	14-16
Special Purpose Funds	
Special Parks Fund	17
Special Development Fund	18
Special Highway Fund	19
Special Fire	20
Equipment Reserve	21
Capital Project Funds	
Sewer Project	22
Business Fund Types	
Water Utility	23
Electric Utility	24
Sewer Utility	25
Refuse Utility	26
Other Supplementary Information:	
Schedule of Insurance Coverage - Unaudited	27-28
Schedule of Expenditures of Federal Awards	29
Notes to the Schedule of Expenditures of Federal Awards	30
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance With Government Auditing Standards	31
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	32-33
Schedule of Findings and Questioned Costs	34-35
Summary Schedule of Prior Year Findings	36

Independent Auditors' Report

To the City Council
City of Scranton, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City of Scranton as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on the U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the City of Scranton, Kansas prepared this financial statement to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on the U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Scranton, Kansas, as of December 31, 2012, or the changes in its financial position or cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City of Scranton, Kansas, as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

Report on Regulatory-Required Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, but are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. As part of this presentation, certain prior year comparative information has been derived from the City's 2011 financial statements and, in our report dated August 29, 2012, we expressed an unqualified opinion on the respective basic financial statements, taken as a whole, on the regulatory basis of accounting. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

Other Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statement. It is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The accompanying financial information listed as Schedule of Insurance Coverage is presented for purposes of additional analysis and is not a required part of the regulatory basis financial statements of the City of Scranton, Kansas. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 5, 2013, on our consideration of the City of Scranton, Kansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Scranton, Kansas' internal control over financial reporting and compliance.

Aldrich & Company, LLC

Aldrich & Company LLC
Certified Public Accountants
August 5, 2013

The City of Scranton
Osage County, Kansas

Summary Statement of Cash Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 72,261	\$ 258,225	\$ 308,674	\$ 21,812	\$ 18,010	\$ 39,822
Special Purpose Funds						
Special parks	15,524	1,688	0	17,212	0	17,212
Special development	59,146	0	0	59,146	0	59,146
Special highway	70,354	18,393	45,018	43,729	0	43,729
Special fire	585	100	0	685	0	685
Equipment reserve	0	0	0	0	0	0
Capital Project Fund						
Sewer project	588,538	2,767,448	3,780,607	(424,621)	216,696	(207,925)
Business Funds						
Water utility	28,906	165,601	193,392	1,115	10,374	11,489
Electric utility	631,592	494,571	378,819	747,344	27,089	774,433
Sewer utility	128,835	101,156	81,822	148,169	2,911	151,080
Refuse	(2,333)	57,852	58,680	(3,161)	4,695	1,534
Total Reporting Entity	<u>\$ 1,593,408</u>	<u>\$ 3,865,034</u>	<u>\$ 4,847,012</u>	<u>\$ 611,430</u>	<u>\$ 279,775</u>	<u>\$ 891,205</u>

Composition of Cash:

Petty Cash	\$ 200
Checking accounts	148,906
Certificates of deposit	742,099
	<u>\$ 891,205</u>

The notes to the financial statement are an integral part of this statement.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The more significant accounting policies are described below.

Financial Reporting Entity

The City of Scranton is a governmental entity and operates under a Mayor-Council form of Government. It provides the following services to its approximately 300 residents: public safety, streets, sanitation, electric, water, parks & recreation, and general administrative services.

Regulatory Basis Fund Types

The accounts of the City are organized and operated on the basis of funds, which are used to record the City's financial transactions. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Cash and other financial resources are recorded together with all related expenditures. A fund is used to segregate specific activities and for the purpose of attaining certain objectives in accordance with special regulations, restrictions, or limitations including State Statutes and City Ordinances. The following types of funds comprise the financial activities of the City.

Governmental Funds:

General Fund -- The General Fund is the chief operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Purpose Funds -- Special Purpose Funds are used to account for the proceeds of specific tax levies and other specific revenue sources (other than capital projects and tax levies for long-term debt) that are intended for specified purposes.

Capital Project Fund -- Capital Project Funds are used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment.

Business Funds:

Business Funds -- Business Funds are financed in whole or in part by fees charged to users of the goods or services. Funds are operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of receipts, expenses, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America (Cont)

The City approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the regulatory basis of accounting.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), debt service funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held, and the governing body may amend the budget at that time. There were no such amendments this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are to be prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payables and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, fiduciary funds, permanent funds and the following special purpose fund: Equipment Reserve

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONT)

Compliance with Finance-Related Legal and Contractual Provisions

Kansas Statutes

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and legal representatives of the municipality.

Expenditures for the water and refuse funds exceeded the budgeted limits K.S.A 79-2935. The City is aware of the requirement and will monitor in the future.

The required annual publication under K.S.A. 12-1608 was not made by the city treasurer. The City is aware of the requirement and will publish in the future as required by statutes.

Deposits with financial institutions were not adequately secured at all times in accordance with K.S.A. 9-1402. The city is aware of the requirement and will monitor in the future.

Management is not aware of any other items of noncompliance with Kansas statutes.

Water System Agreement Noncompliance

The City's water system debt issue requires the city to charge rates sufficient to have a net operating profit of not less than 140% of the next succeeding year's principal and interest payment or \$18,830 for the year ended December 31, 2012. The city's cash receipts were \$27,791 less than its expenditures.

NOTE 3 - CASH AND DEPOSITS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires that banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no other policies that would further limit its investment choices.

Concentration of credit risk State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 3 - CASH AND DEPOSITS (CONT)

Custodial credit risk – deposits Custodial credit risk is the risk that in event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2012.

The City maintains a cash pool that is available for use by all funds. At year-end the carrying amount of the city's deposits was \$891,005. The bank balance held by one bank was \$1,117,578, resulting in a concentration of credit risk. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$270,617 was covered by FDIC insurance, \$846,961 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the city's name.

NOTE 4 - PROPERTY TAXES

The city certifies its' budget to the county clerk annually. Using this certified budget and those of other political subdivisions within the county, the county clerk spreads the annual assessment onto the tax rolls and levies property tax on November 1 of each year. The property tax is payable in two installments. The first installment is due December 20 of the same year, and the second installment is due May 10 of the subsequent year. The county collects and distributes the property taxes. In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the following year's operations.

NOTE 5 - DEFINED BENEFIT PENSION PLAN

Plan Description – The City of Scranton, Kansas participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy - K.S.A. 74-4419 and 74-49,210 establishes the KPERS member-employee contribution rates. Effective July 1, 2009, KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. Kansas law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the contribution rates for KPERS employers.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 6 - LONG-TERM DEBT

Water System Revenue Bonds Series 1982-A

Water system revenue bonds series 1982-A are serial bonds to be retired in the year 2022. Principal and interest payments are paid annually from the revenues generated by the Water Utility. Interest is paid at an annual rate of 5%.

K.D.H.E. - Notes Payable

The City received a low interest loan from the Kansas Department of Health and Environment in 1994 for the purpose of matching a CDBG Grant for a Sewer Improvement Project. The interest rate is 3.51% with 40 semiannual payments. In 2004, the City amended the loan to receive an additional \$189,817 from the Kansas Department of Health and Environment for necessary upgrades to their sewer utility system. The loan carries an interest rate of 2.66% with 40 semiannual payments scheduled. The first payment was made in September 2005. Payments were made from the sewer fund. This note was refinanced with the new sewer project in 2012.

Rural Water District No. 5 - Contract Payable

On February 19, 1982, the City entered into a 40 year contract with Rural Water District No. 5 of Osage County, Kansas, to purchase purified water. The District agreed to deliver pure water not to exceed 3,240,000 gallons per month with a minimum pressure of 20 p.s.i. In return, the City will pay \$400,000 for 40 years of rights, of which \$20,000 was paid down in 1981. Beginning in May of 1983, the balance was due in installments of \$1,900 per month for 37 years. Interest is paid at an annual rate of 5%. An estimate of the debt, based on the remaining scheduled payments, has been included on the Long Term Debt Schedule. Payments are made from the water fund.

Distributor lease

In August 2009, the City entered into a lease with First Bank for a distributor truck. The amount financed was \$34,500. The lease carries an annual interest rate of 4.25%. Ten payments of \$3,786 and a final \$1 payment are scheduled with the first payment being made September 2009. Payments are made from the general & special highway funds.

Truck lease

In August 2010, the City entered into a lease with First Bank for the purchase of two trucks. The amount financed was \$24,250. The lease carries an annual interest rate of 4.25%. One payment of \$2,425 was made in 2010 with the signing of the lease. Three annual payments of \$7,912 and a final \$1 payment are scheduled with the first payment being made August 2011. Payments are split between the water, electric & sewer funds.

Backhoe lease

In June 2011, the City entered into a lease with Kansas State Bank of Manhattan for the purchase of a Case 580N backhoe. The amount financed was \$53,124. The lease carries an annual interest rate of 5.181%. Five annual payments of \$12,332 are scheduled with the first payment being due June 2012. Payments are split between the water & sewer funds.

General Obligation Bonds

To finance a sewer system upgrade the city issued general obligation bonds on March 28, 2012 in the amount of \$2,420,000. The bonds carry an interest rate of 3%. Payments are scheduled to begin on March 28, 2013. To fund improvements prior to the issuance of these bonds, temporary financing was obtained through the Silver Lake Bank in the amount of \$2,325,000 and carried an interest rate of 4%. This temporary financing was repaid in March 2012 in the amount of \$2,418,020 including interest.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 6 - LONG TERM DEBT (CONT)

Changes in long term liabilities for the City for the year ended December 31, 2012 are as follows:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Payable January 1</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Balance Payable December 31</u>	<u>Interest Paid</u>
Revenue Bonds:									
Water Sys Bd Ser 1982-A	5.00%	12/17/1982	233,000	12/17/2022	\$ 117,000	\$ 0	\$ 8,000	\$ 109,000	\$ 5,850
KDHE loans									
KDHE - Sewer Imp	3.51%	5/27/1994	213,380	3/1/2015	47,873	0	47,873	0	990
KDHE - Sewer Imp	2.66%	9/1/2004	199,000	3/1/2024	468,583	460	469,043	0	2,540
General Obligation Bonds									
Silver Lake Bank-temporary					2,325,000		2,325,000	0	93,020
Series 2012A	3.00%	3/28/2012	2,420,000	3/28/2052	0	2,420,000	0	2,420,000	0
Rural water									
Rural Water District #5	5.00%	2/19/1982	400,000	4/10/2020	154,638	0	15,296	139,342	7,504
Capital lease									
KSB-Backhoe	5.18%	6/5/2011	53,124	6/5/2016	53,124	0	9,579	43,545	2,752
First Bank-Distributor	4.25%	8/24/2009	34,500	8/24/2014	17,779	0	6,888	10,891	684
First Bank-Trucks	4.25%	8/4/2010	24,250	8/4/2013	<u>14,853</u>	<u>0</u>	<u>7,270</u>	<u>7,583</u>	<u>642</u>
Total long term debt					<u>\$ 3,198,850</u>	<u>\$ 2,420,460</u>	<u>\$ 2,888,949</u>	<u>\$ 2,730,361</u>	<u>\$ 113,982</u>

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 6 - LONG TERM DEBT (CONT)

Current maturities of long term debt and interest for the next five years and in five year increments through maturity are as follows:

	2013	2014	2015	2016	2017	2018-2022	2023-2027	2028-2032	2033-2037	2038-2042	2043-2047	2048-2052	Total
Principal													
Revenue Bonds:													
Water Sys Bd Ser 1982-A	8,000	9,000	9,000	10,000	10,000	63,000	0	0	0	0	0	0	109,000
USDA - Sewer Imp	30,000	30,000	30,000	35,000	35,000	185,000	220,000	260,000	310,000	360,000	420,000	505,000	2,420,000
Rural Water District #5	16,092	16,929	17,809	18,735	19,710	50,067	0	0	0	0	0	0	139,342
Capital lease-backhoe	10,076	10,598	11,147	11,724	0	0	0	0	0	0	0	0	43,545
Capital lease-Distributor	7,184	3,707	0	0	0	0	0	0	0	0	0	0	10,891
Capital lease-Trucks	<u>7,583</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,583</u>
Total Principal	<u>78,935</u>	<u>70,234</u>	<u>67,956</u>	<u>75,459</u>	<u>64,710</u>	<u>298,067</u>	<u>220,000</u>	<u>260,000</u>	<u>310,000</u>	<u>360,000</u>	<u>420,000</u>	<u>505,000</u>	<u>2,730,361</u>
Interest													
Revenue Bonds:													
Water Sys Bd Ser 1982-A	5,450	5,050	4,600	4,150	3,650	10,100	0	0	0	0	0	0	33,000
USDA - Sewer Imp	72,600	71,700	70,800	69,900	68,850	328,350	298,350	263,100	221,100	171,600	114,300	46,650	1,797,300
Rural Water District #5	6,708	5,871	4,991	4,065	3,090	3,132	0	0	0	0	0	0	27,857
Capital lease-backhoe	2,256	1,734	1,185	607	0	0	0	0	0	0	0	0	5,782
Capital lease-Distributor	388	79	0	0	0	0	0	0	0	0	0	0	467
Capital lease-Trucks	<u>330</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>330</u>
Total Interest	<u>87,732</u>	<u>84,434</u>	<u>81,576</u>	<u>78,722</u>	<u>75,590</u>	<u>341,582</u>	<u>298,350</u>	<u>263,100</u>	<u>221,100</u>	<u>171,600</u>	<u>114,300</u>	<u>46,650</u>	<u>1,864,736</u>
Total Principal and Interest	<u>\$ 166,667</u>	<u>\$ 154,668</u>	<u>\$ 149,532</u>	<u>\$ 154,181</u>	<u>\$ 140,300</u>	<u>\$ 639,649</u>	<u>\$ 518,350</u>	<u>\$ 523,100</u>	<u>\$ 531,100</u>	<u>\$ 531,600</u>	<u>\$ 534,300</u>	<u>\$ 551,650</u>	<u>\$ 4,595,097</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 7 - OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

Compensated Absences

The City of Scranton provides sick and vacation leave to its employees. Each full time employee is entitled to eight hours of sick leave per month of service and part-time employees working at least twenty hours per month earn four hours of sick leave per month. Maximum sick leave accumulation is 1040 hours. Upon separation of service, no amount is paid to the employee for unused sick leave. Full time employees with less than 5 years of service earn eight hours of vacation for each month of service. Employees with 5-10 years of service earn ten hours per month, 10-15 years of service earn 12 hours per month, and over 15 years of service earn 14 hours per month. Part time employees who work at least 20 hours per week earn 4 hours of vacation for each month of service. Maximum accumulations vary based on years of service, but no employee can accumulate more than 240 hours of vacation. Upon separation of service, employees are paid for unused vacation leave at their regular rate of pay. Payments are made from the fund that corresponds to the employee's assignment.

Other Post-Employment Benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

Deposits

The City requires customers to provide a security deposit on all utility service of \$200 per service. Renters deposits are held until service is terminated. Owner's deposits are refunded after two years with consecutive timely payments or after ten years whichever is earlier. Deposit detail is maintained by customer.

NOTE 8 – UTILITY SERVICE CO. AGREEMENT

The City entered into an annual water tower maintenance agreement with Utility Service Co. Inc. on July 20, 2007. The contract has an indefinite term and is cancelable at any time with a written notice 90 days prior to the first day of the upcoming contract year. The contract payment schedule is as follows: year 1-\$2,401; years 2, 3, and 4-\$19,201 per year and year 5 and subsequent years-\$7,354. In year 8 and each third anniversary thereafter, the annual fee may be adjusted up to 5% to reflect current cost of service. If the city cancels the contract prior making the fourth annual payment, they will be billed the balance for work completed.

NOTE 9 – RISK MANAGEMENT

The City is exposed to various risks of loss including risks related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The city carries commercial insurance for these risks of loss including property and liability insurance. There were no significant reductions in insurance coverage from coverage in place in prior years.

City of Scranton
Osage County, Kansas

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

NOTE 10 – SEWER PROJECT

The City has substantially completed a sewer upgrade project. The total project cost was \$3,715,000. The City was awarded a CDBG grant in the amount of \$500,000. In addition, USDA Rural Development assisted with project costs with a grant of \$795,000 and loan proceeds of \$2,420,000, which includes the payoff of the City's remaining sewer notes with the Kansas Department of Health and Environment (KDHE). Temporary financing of \$2,325,000 was obtained through the Silver Lake Bank until general obligation bonds were issued and purchased by USDA-RD. The bonds were issued March 28, 2012. Phase I of the project was substantially completed in November 2011. Phase II of the project was substantially completed in 2012. As of December 31, 2012, the city had expended \$3,655,148 on the project, including cash disbursements and accounts payable.

REGULATORY-REQUIRED
SUPPLEMENTARY INFORMATION

The City of Scranton
Osage County, Kansas

Schedule 1

Summary of Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

Funds	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
General Fund	\$ 340,273		\$ 340,273	\$ 308,674	\$ 31,599
Special Purpose Funds					
Special parks	20,187		20,187	0	20,187
Special development	59,146		59,146	0	59,146
Special highway	88,921		88,921	45,018	43,903
Special fire	685		685	0	685
Business Funds					
Water utility	189,443		189,443	193,392	(3,949)
Electric utility	528,892		528,892	378,819	150,073
Sewer utility	100,693		100,693	81,822	18,871
Refuse	55,980		55,980	58,680	(2,700)

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2A

GENERAL FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Taxes				
Osage Co	\$ 130,275	\$ 130,345	\$ 135,606	\$ (5,261)
City Sales Tax	28,829	33,151	21,000	12,151
Franchise taxes	8,031	6,985	9,000	(2,015)
Total Taxes	<u>167,135</u>	<u>170,481</u>	<u>165,606</u>	<u>4,875</u>
Intergovernmental				
Local alcoholic liquor	885	1,688	2,140	(452)
LAVTR	0	0	0	0
County Sales Tax	31,418	29,349	29,000	349
Total Intergovernmental	<u>32,303</u>	<u>31,037</u>	<u>31,140</u>	<u>(103)</u>
Licenses and Permits				
Licenses, Permits, and Fees	<u>1,501</u>	<u>1,809</u>	<u>1,000</u>	<u>809</u>
Use of Money and Property				
Interest on deposits	<u>10,423</u>	<u>7,684</u>	<u>15,000</u>	<u>(7,316)</u>
Miscellaneous Revenue				
City recreation - beginning transfer	0	3,091	0	3,091
City recreation receipts	0	10,813	0	10,813
Court	19,557	22,866	15,000	7,866
Other	4,797	10,444	2,500	7,944
Total Miscellaneous	<u>24,354</u>	<u>47,214</u>	<u>17,500</u>	<u>29,714</u>
Operating Transfers				
Water utility	0	0	0	0
Sewer utility	0	0	0	0
Electric utility	0	0	47,000	(47,000)
Capital Improvement	0	0	0	0
Total Transfers	<u>0</u>	<u>0</u>	<u>47,000</u>	<u>(47,000)</u>
Total Cash Receipts	<u>\$ 235,716</u>	<u>\$ 258,225</u>	<u>\$ 277,246</u>	<u>\$ (19,021)</u>

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2A

GENERAL FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Expenditures				
General administrative				
Personal	\$ 21,973	\$ 21,808	\$ 32,925	\$ 11,117
Contractual	18,722	11,592	14,938	3,346
Commodities	11,674	11,068	17,610	6,542
Capital outlay	467	0	5,790	5,790
Total General administrative	52,836	44,468	71,263	26,795
Street Department				
Personal	12,341	18,065	28,510	10,445
Contractual	11,710	13,844	14,500	656
Commodities	58,881	65,845	62,350	(3,495)
Capital outlay	0	0	0	0
Total Street Department	82,932	97,754	105,360	7,606
Fire Department				
Personal	655	690	765	75
Contractual	5,474	5,603	6,465	862
Commodities	7,457	9,245	9,990	745
Capital outlay	0	0	0	0
Fire loan repayment	0	0	0	0
Total Fire Department	13,586	15,538	17,220	1,682
Parks Department				
Personal	1,934	1,837	2,220	383
Contractual	9,549	10,458	11,575	1,117
Saturday in the Park	1,000	0	0	0
Commodities	1,751	2,411	4,465	2,054
Capital outlay	0	0	0	0
Total Parks Department	14,234	14,706	18,260	3,554
Law Enforcement				
Personal	73,103	83,875	88,960	5,085
Contractual	20,463	15,771	14,310	(1,461)
Commodities	15,020	14,477	10,730	(3,747)
Capital outlay	0	0	0	0
Total Law Enforcement	108,586	114,123	114,000	(123)
Court				
Personal	5,710	5,278	6,135	857
Contractual	9,152	9,312	5,735	(3,577)
Commodities	206	463	1,930	1,467
Total Court	15,068	15,053	13,800	(1,253)
Emergency preparedness				
Personal	0	0	0	0
Contractual	0	0	370	370
Total Emergency preparedness	0	0	370	370
Total Expenditures Forward	\$ 287,242	\$ 301,642	\$ 340,273	\$ 38,631

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2A

GENERAL FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Total Expenditures Carried Forward	\$ 287,242	\$ 301,642	\$ 340,273	\$ 38,631
City Recreation				
Contractual	0	3,064	0	(3,064)
Commodities	0	3,968	0	(3,968)
Total City Recreation	0	7,032	0	(7,032)
Total Expenditures	287,242	308,674	340,273	31,599
Receipts Over (Under) Expenditures	(51,526)	(50,449)	\$ (63,027)	\$ 12,578
Unencumbered Cash Balance, January 1	123,787	72,261		
Unencumbered Cash Balance, December 31	\$ 72,261	\$ 21,812		

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2B

SPECIAL PURPOSE FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

SPECIAL PARKS FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
State of Kansas	\$ 885	\$ 1,688	\$ 2,140	\$ (452)
Osage Co	0	0	0	0
Total Cash Receipts	<u>885</u>	<u>1,688</u>	<u>2,140</u>	<u>(452)</u>
Expenditures				
Park repair & maintenance	<u>0</u>	<u>0</u>	<u>20,187</u>	<u>20,187</u>
Receipts Over (Under) Expenditures	885	1,688	<u>\$ (18,047)</u>	<u>\$ 19,735</u>
Unencumbered Cash Balance, January 1	<u>14,639</u>	<u>15,524</u>		
Unencumbered Cash Balance, December 31	<u>\$ 15,524</u>	<u>\$ 17,212</u>		

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2C

SPECIAL PURPOSE FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

SPECIAL DEVELOPMENT FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Interest	\$ 0	\$ 0	\$ 0	\$ 0
Expenditures				
Business development	<u>0</u>	<u>0</u>	<u>59,146</u>	<u>59,146</u>
Receipt Over (Under) Expenditures	0	0	<u>\$ (59,146)</u>	<u>\$ 59,146</u>
Unencumbered Cash Balance, January 1	<u>59,146</u>	<u>59,146</u>		
Unencumbered Cash Balance, December 31	<u>\$ 59,146</u>	<u>\$ 59,146</u>		

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2D

SPECIAL PURPOSE FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

SPECIAL HIGHWAY FUND

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
State payments	\$ 18,033	\$ 18,393	\$ 18,510	\$ (117)
Other	0	0	0	0
Total Cash Receipts	18,033	18,393	18,510	(117)
Expenditures				
Street repair and maintenance	5,000	45,018	88,921	43,903
Total Expenditures	5,000	45,018	88,921	43,903
Receipts Over (Under) Expenditures	13,033	(26,625)	<u>\$ (70,411)</u>	<u>\$ 43,786</u>
Unencumbered Cash Balance, January 1	57,321	70,354		
Unencumbered Cash Balance, December 31	<u>\$ 70,354</u>	<u>\$ 43,729</u>		

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2E

SPECIAL PURPOSE FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

SPECIAL FIRE

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Donations	\$ 100	\$ 100	\$ 100	\$ 0
Total Cash Receipts	<u>100</u>	<u>100</u>	<u>100</u>	<u>0</u>
Expenditures				
Fire expenditures	<u>0</u>	<u>0</u>	<u>685</u>	<u>685</u>
Total Expenditures	<u>0</u>	<u>0</u>	<u>685</u>	<u>685</u>
Receipts Over (Under) Expenditures	100	100	<u>\$ (585)</u>	<u>\$ 685</u>
Unencumbered Cash Balance, January 1	<u>485</u>	<u>585</u>		
Unencumbered Cash Balance, December 31	<u>\$ 585</u>	<u>\$ 685</u>		

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2F

SPECIAL PURPOSE FUND
Schedule of Cash Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

EQUIPMENT RESERVE

	2011	2012
Cash Receipts		
Transfers in	\$ 0	\$ 0
Interest	0	0
Other	0	0
Total Cash Receipts	<u>0</u>	<u>0</u>
Expenditures		
Equipment purchases	<u>0</u>	<u>0</u>
Receipts Over (Under) Expenditures	0	0
Unencumbered Cash Balance, January 1	<u>0</u>	<u>0</u>
Unencumbered Cash Balance, December 31	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2G

CAPITAL PROJECT FUND
Schedule of Cash Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

SEWER PROJECT

	2011	2012
Cash Receipts		
Grant/loan proceeds	\$ 2,960,180	\$ 2,766,800
Interest and temporary note interest	3,889	648
Total Cash Receipts	<u>2,964,069</u>	<u>2,767,448</u>
Expenditures		
Sewer project	2,305,324	1,125,676
KDHE loan reimbursed project expenditures	0	329,931
Temporary financing principal	0	2,325,000
Total Expenditures	<u>2,305,324</u>	<u>3,780,607</u>
Receipts Over (Under) Expenditures	658,745	(1,013,159)
Unencumbered Cash Balance, January 1	<u>(70,207)</u>	<u>588,538</u>
Unencumbered Cash Balance, December 31	<u>\$ 588,538</u>	<u>\$ (424,621)</u>

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2H

BUSINESS FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

WATER UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 153,035	\$ 161,037	\$ 162,800	\$ (1,763)
Other receipts	5,896	4,564	2,200	2,364
Total Cash Receipts	<u>158,931</u>	<u>165,601</u>	<u>165,000</u>	<u>601</u>
Expenditures				
Personal services	46,332	47,663	44,430	(3,233)
Contractual services	25,990	20,884	33,990	13,106
Commodities	15,446	23,508	23,053	(455)
Water purchased & RWD note	77,478	84,287	72,000	(12,287)
Debt service	14,250	13,850	13,850	0
Other	3,474	3,200	2,120	(1,080)
Transfer to general fund	0	0	0	0
Total Expenditures	<u>182,970</u>	<u>193,392</u>	<u>189,443</u>	<u>(3,949)</u>
Receipts Over (Under) Expenditures	(24,039)	(27,791)	<u>\$ (24,443)</u>	<u>\$ (3,348)</u>
Unencumbered Cash Balance, January 1	<u>52,945</u>	<u>28,906</u>		
Unencumbered Cash Balance, December 31	<u>\$ 28,906</u>	<u>\$ 1,115</u>		

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 21

BUSINESS FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

ELECTRIC UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 467,430	\$ 476,057	\$ 520,000	\$ (43,943)
Sales tax collected	11,218	11,621	0	11,621
Deposit receipts	2,993	2,210	0	2,210
Other receipts	5,224	4,683	0	4,683
Total Cash Receipts	486,865	494,571	520,000	(25,429)
Expenditures				
Personal services	50,171	44,825	55,570	10,745
Contractual services	15,490	12,288	33,295	21,007
Commodities	27,099	20,904	65,007	44,103
Electricity purchased	274,417	285,825	299,250	13,425
Capital outlay	0	0	13,780	13,780
Sales tax paid	12,323	12,398	9,480	(2,918)
Deposit refunds	3,674	2,579	5,510	2,931
Transfers to other funds	0	0	47,000	47,000
Adjustment for budget credit	0	0	0	0
Total Expenditures	383,174	378,819	528,892	150,073
Receipts over (under) Expenditures	103,691	115,752	\$ (8,892)	\$ 124,644
Unencumbered Cash Balance, January 1	527,901	631,592		
Unencumbered Cash Balance, December 31	\$ 631,592	\$ 747,344		

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2J

BUSINESS FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

SEWER UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 87,906	\$ 100,216	\$ 91,750	\$ 8,466
Other	980	940	0	940
Total Cash Receipts	<u>88,886</u>	<u>101,156</u>	<u>91,750</u>	<u>9,406</u>
Expenditures				
Personal services	40,998	38,818	38,850	32
Commodities	13,118	19,053	21,553	2,500
Contractual services	12,242	10,026	12,440	2,414
Debt repayments	27,850	13,925	27,850	13,925
Transfer to sewer reserve	0	0	0	0
Transfer to general	0	0	0	0
Total Expenditures	<u>94,208</u>	<u>81,822</u>	<u>100,693</u>	<u>18,871</u>
Receipts Over (Under) Expenditures	(5,322)	19,334	<u>\$ (8,943)</u>	<u>\$ 28,277</u>
Unencumbered Cash Balance, January 1	<u>134,157</u>	<u>128,835</u>		
Unencumbered Cash Balance, December 31	<u>\$ 128,835</u>	<u>\$ 148,169</u>		

See Accompanying Auditors' Report.

The City of Scranton
Osage County, Kansas

Schedule 2K

BUSINESS FUND
Schedule of Cash Receipts and Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012
With Comparative Actual Totals for the Prior Year Ended December 31, 2011

REFUSE UTILITY

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Sales to customers	\$ 56,982	\$ 57,379	\$ 58,000	(621)
Other receipts	0	473	0	473
Total Cash Receipts	<u>56,982</u>	<u>57,852</u>	<u>58,000</u>	<u>(148)</u>
Expenditures				
Personal services	832	780	785	5
Commodities	234	81	0	(81)
Contractual Services	<u>57,750</u>	<u>57,819</u>	<u>55,195</u>	<u>(2,624)</u>
Total Expenditures	<u>58,816</u>	<u>58,680</u>	<u>55,980</u>	<u>(2,700)</u>
Receipts Over (Under) Expenditures	(1,834)	(828)	<u>\$ 2,020</u>	<u>\$ (2,848)</u>
Unencumbered Cash Balance, January 1	<u>(499)</u>	<u>(2,333)</u>		
Unencumbered Cash Balance, December 31	<u>\$ (2,333)</u>	<u>\$ (3,161)</u>		

See Accompanying Auditors' Report.

OTHER SUPPLEMENTARY INFORMATION

City of Scranton
Osage County, Kansas

Schedule 3 – Insurance Coverage - Unaudited
December 31, 2012

Insurance policy period May 2012 to May 2013	Coverage	Co-Ins	Deductible
Blanket Property			
Water Tower	\$173,000	90%	\$1,000
Pumphouse	19,000	90%	1,000
Tool shed 228 S Brownie	35,000	90%	1,000
Lift Station	35,000	90%	1,000
Lift Station	37,000	90%	1,000
Sports Complex - Boone St	43,000	90%	1,000
Lights & Poles	26,000	90%	1,000
Scoreboard	4,000	90%	1,000
Fence	21,000	90%	1,000
Community Center	71,000	90%	1,000
City Office Building	165,000	90%	1,000
Inland Marine			
Miscellaneous Tools	10,000	80%	500
Caterpillar Motor Grader	28,000	80%	500
Chipper Shredder	2,000	80%	500
John Deere Tractor	5,000	80%	500
Police equipment	12,800	80%	500
201 Case Backhoe	70,124	80%	500
General Liability			
Each Occurrence Limit	1,000,000		500
Damage to premises rent	100,000		500
Medical Expense Limit	5,000		500
Personal and Advertising Injury Limit	1,000,000		500
General Aggregate Limit	2,000,000		500
Workers' Compensation and Employers' Liability			
Bodily Injury by Accident - each accident	500,000		
Bodily Injury by Disease - each employee	500,000		
Bodily Injury by Disease - policy limit	500,000		

This schedule is intended only as a descriptive summary.

See accompanying auditors' report.

City of Scranton
Osage County, Kansas

Schedule 3 – Insurance Coverage - Unaudited
December 31, 2012

Insurance policy period May 2012 to May 2013	Coverage	Deductible
Commercial Auto		
Liability	\$ 1,000,000	
Uninsured / Underinsured Motorists	1,000,000	
Covered Vehicles with Comprehensive and Collision also	comp collision	500 1,000
1993 Sewer Machine Truck		
1993 F700 Bucket Truck		
1993 Chevy Kodiak Dump Truck		
2008 Chevy Impala		
1997 Ford F800		
2002 chevy 3/4T		
2011 Chevy police car		
2009 F150		
Linebacker		
Municipality Errors & Omissions		
Limit each loss	1,000,000	1,000
Limit aggregate	1,000,000	
EMC Insurance		
#S2 1 13 92		
Effective February 28, 2003 for an indefinite term		
Fidelity Bond on City Clerk	37,000	
Fidelity Bond on City Treasurer	10,000	

This schedule is intended only as a descriptive summary.

See accompanying auditors' report.

City of Scranton
Osage County, Kansas

Schedule of Expenditures of Federal Awards
For the year ended December 31, 2012

Federal Grantor/Pass-through Grantor Program or Cluster Title	CFDA Number	Federal Expenditures
United States Department of Housing and Urban Development Community Development Block Grants	14.228	\$ 1,281
United States Department of Agriculture Water and Waste Disposal Systems for Rural Communities	10.760	<u>1,417,431</u>
Total Federal Expenditures		<u>\$ 1,418,712</u>

See accompanying notes to schedule of expenditures of Federal Awards.

City of Scranton
Osage County, Kansas

Notes to the Schedule of Expenditures of Federal Awards
For the year ended December 31, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Scranton, Kansas under programs of the federal government for the year ended December 31, 2012. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of the City of Scranton, Kansas, it is not intended to and does not present the cash receipts, cash disbursements and unencumbered cash of the City of Scranton, Kansas.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the State of Kansas regulatory basis of accounting modified to exclude encumbrances. Expenditures include disbursements and accounts payable, with disbursements being adjusted for prior year's accounts payable. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – PROGRAM COSTS/MATCHING CONTRIBUTIONS

The amounts shown as current year expenses represent only the federal grant portion of the programs costs. Entire program costs, including the City of Scranton's portion may be more than shown. City records should be consulted to determine amounts expended or matched from non-federal sources.

CERTIFIED PUBLIC ACCOUNTANTS

620-767-6653
1-800-361-6545
FAX 620-767-8149

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Mayor and City Council
208 S. Brownie Avenue
Scranton, Kansas 66537

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the regulatory basis financial statements of the City of Scranton, Kansas, as of and for the year ended December 31, 2012, and the notes to the financial statements, which collectively comprise the City of Scranton, Kansas' financial statements and have issued our report thereon dated August 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Scranton's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Scranton's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Scranton's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2012-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as 2012-2 and 2012-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Scranton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City of Scranton, Kansas' Response to Findings

The City of Scranton, Kansas' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Scranton's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Aldrich & Company, LLC

Aldrich & Company LLC
Certified Public Accountants
Council Grove, Kansas
August 5, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Mayor and City Council
City of Scranton, Kansas
208 S. Brownie Avenue
Scranton, Kansas 66537

Report on Compliance for Each Major Federal Program

We have audited the City of Scranton, Kansas' compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Scranton's major federal programs for the year ended December 31, 2012. The City of Scranton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Scranton's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Scranton's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Scranton's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the City of Scranton, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-3. Our opinion on each major program is not modified with respect to these matters.

The City of Scranton's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Scranton's response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City of Scranton, Kansas, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Scranton's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Scranton's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-3 to be a significant deficiency.

The City of Scranton's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Scranton's response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Aldrich & Company, LLC

Aldrich & Company LLC
Council Grove, Kansas
August 5, 2013

Schedule of Findings and Questioned Costs
City of Scranton, Kansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the City of Scranton, Kansas, on the State of Kansas regulatory basis of accounting.
2. Three significant deficiencies were disclosed during the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. One was reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City of Scranton were disclosed during the audit.
4. Two significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133. One was reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for the City of Scranton, Kansas expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as a major program included: Water and Waste Disposal Systems 10.760.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Scranton, Kansas, was not determined to be a low-risk auditee.

FINDINGS—FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS

2012-1 Inadequate segregation of duties

Condition: There is an inadequate segregation of duties with respect to the financial recordkeeping functions. The clerk and assistant clerk are responsible for most recordkeeping and reconciliation activities with little rotation or cross-checking of duties. In addition, the recreation commission handles their own receipting and also does not have separation of duties.

Criteria: Internal controls should be in place to segregate duties, where possible, and to monitor the duties of the clerk and assistant clerk. In addition, the recreation commission receipting should be monitored.

Cause: The City is very small with few administrative personnel.

Effect: The clerk or assistant or recreation commission employees could cease performing some of their duties with the problem not being timely detected. Similarly, the recreation receipts could be misappropriated without being timely detected.

Recommendation: Procedures should be implemented to segregate and rotate duties, where possible. Recreation commission receipts should be accounted for and receipts should be monitored by the city. In addition, the mayor and city council should review detailed transactions on a regular basis.

City response: Administrative duties will be segregated as allowed by personnel. The mayor and City Council will continue to monitor duties performed by the administrative personnel and contract for professional assistance if necessary.

SIGNIFICANT DEFICIENCIES

2012-2 Reconciliation of utilities sold versus utilities purchased

Condition: The city currently purchases its electricity and water for resale to its customers. No comparisons are done that track the two amounts.

Criteria: Internal controls should be in place, to compare these items to minimize the city's risk of loss.

Cause: Internal controls over utility purchases were not properly designed.

Effect: Because of the lack of comparison, the city could experience loss due to billing or distribution system problems and not timely discover the error.

Recommendation: Procedures should be implemented to track both the sales quantities, purchase quantities and projected loss.

City response: We continue to work toward tracking and evaluating these figures on a monthly basis.

2012-3 Drafting of financial statements

Condition: The city did not draft their financial statements. The audit firm drafted for city approval.

Criteria: Internal controls should be in place, for city personnel to prepare financial statements or be able to take responsibility for them.

Cause: The City is very small with few administrative personnel. These personnel prepare the trial balance but do not prepare a full set of financial statements.

Effect: Information may not be relayed to the preparer of the financial statements, and therefore, omitted.

Recommendation: Procedures should be implemented to ensure that city personnel evaluating the preparation services are able to understand the preparation and to take responsibility for the preparation of the financial statements. In addition, a regulatory disclosure checklist should be obtained and completed.

City response: We do prepare our financial trial balances and budgetary comparisons. However, due to limited availability of staff, we do not prepare a full set of statements. The state of Kansas regulatory basis of accounting is relatively simple, and we feel that it is more cost effective for our staff to continue to evaluate the financial statement preparation services.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Water and Waste Disposal Systems for Rural Communities-CFDA No. 10.760

Material Weaknesses & Significant Deficiencies. The material weakness and significant deficiencies at findings 2012-1 and 2012-3 also apply to this loan.

Summary Schedule of Prior Audit Findings
City of Scranton, Kansas

FINDINGS—FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS

2011-1 Inadequate segregation of duties

Condition: There is an inadequate segregation of duties with respect to the financial recordkeeping functions. The clerk and assistant clerk are responsible for most recordkeeping and reconciliation activities with little rotation or cross-checking of duties.

Recommendation: Procedures should be implemented to segregate and rotate duties, where possible. The mayor and the governing body should continually review activities.

Status: Due to staff turnover, segregation of duties has not been possible at varying times throughout the year. The mayor and governing body review accounting reports each meeting. The mayor and city council will continue to monitor duties performed by the administrative personnel and contract for professional assistance if necessary.

SIGNIFICANT DEFICIENCIES

2011-2 Reconciliation of utilities sold versus utilities purchased

Condition: The city currently purchases its electricity and water for resale to its customers. No comparisons are done that track the two amounts.

Recommendation: Procedures should be implemented to track both the sales quantities, purchase quantities and projected loss.

Status: The city is working toward tracking these items.

2011-3 Drafting of financial statements

Condition: The city did not draft their financial statements. The audit firm drafted for city approval.

Recommendation: Procedures should be implemented to ensure that city personnel evaluating the preparation services are able to understand the preparation and to take responsibility for the preparation of the financial statements. *Status:* The city prepares our financial trial balances and budgetary comparisons. Due to limited availability of staff, they do not prepare a full set of statements. They feel that the state of Kansas regulatory basis of accounting is relatively simple, and that it is more cost effective for their staff to continue to evaluate the financial statement preparation services.